Industrial Distribution

November 1981

Hotline:
Fadeout of cash discounts accelerating profit erosion

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Computer update '81... Year of the computer

Industrial Distribution

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Indicators . . .

Purchases of industrial supplies and equipment continued to show healthy gains in all regions of the country in August. The month's sales gains outpaced inflation, according to the *NIDA-SIDA Industrial Distribution Index*, which posted its second consecutive record high. The national figure of 150.6 put the seasonally adjusted, two-month moving average 1.2 points (0.8%) higher than July. The figure is 16.5 points (12.3%) above the year-before level . . . The *NIDA-SIDA Inflation Index* for August was 146.2, up 0.4 points (0.2%) from July and 13 points (9.8%) from the year-before level . . . Regional sales, comparing August to month-before and year-before levels, were: east, 150.4, up 9.1% and down 4%; midwest, up 16.6% and 1.8%; west, up 7.8% and 2.2%; south, up 9.8% and 1.4% . . . The *ASMMA New Order Index* stood at 119.2, down 2.7 points (2.2%) from July and up 18.7 points (18.6%) from August 1980 . . . The *FRB Durable Manufacturers Index* stood at 142.4, down 1.1 points . . . The *SIDA Monthly Sales Trend Report* showed a 3.0% decline in August-to-July sales and a 13.9% increase in August 1981 from August 1980 sales. Sales in the first eight months of 1981 compared with the same period in 1980 showed a 10.1% increase . . . The *Wholesale Hardware Index* of the National Wholesale Hardware Assn. was 21.5 points (9.7%) below July's and 16.5 points (8.9%) above that of August 1980 . . . The National Welding Supply Assn.'s *Welding Supply Index* increased to 157 in August from 156 . . . The *Quick Pulse Index* of the National Assn. of Aluminum Distributors stood at 110.4 in August, up 4.8 points (4.5%) from July but down 0.4 points (0.4%) from the year-ago level . . . New orders for machine tools rose to $214 million, a 10% increase over July but year-to-date totals are still running 35% behind the same period a year ago, according to the National Machine Tool Builders Assn. . .The third quarter will be worse than the poor second quarter, says a report from the National Assn. of Purchasing Management. Some 33% of purchasing managers indicated business will be worse for their companies in this quarter while 27% feel it will be better . . . The 12 leading indicators of future economic activity fell in August by 0.7% the Dept. of Commerce reports. □

August sales soar

August totals took off like a shot as sales zoomed 17% above year-ago levels. While general line gains of 14% couldn't match the spectacular performance of specialists, whose sales rose 20%, both groups report heavy increases around the country.

Regionally, the major upturns occurred in the West South Central, 28%; Mountain, 26%; East South Central and South Atlantic, 22%, and West North Central, 20%.

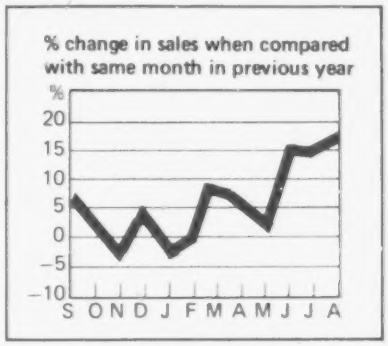
However, when compared with the previous month, sales figures were little cause for joy. Many areas marked declines, the largest of which was 6% in the East South Central. South Atlantic and West South Central distributors exhibited the biggest gains—5%.

Year to date sales present an uneven picture. All distributors remain 6% ahead of last year. But modest gains by the heavily industrialized areas, including the East North Central and Middle Atlantic, offset stronger sales by Sunbelt distributors.

Yet even with all statistics taken together, distribution is faring better than such bellwether indicators as machine tool orders. They rose 10% in August 1981 when compared with the previous month, but remain 5% below year-ago levels, according to the National Machine Tool Builders Assn.

RECEIVABLES*	Aug. 1981 Gen.	Aug. 1981 Spec.	Aug. 1980 Gen.	Aug. 1980 Spec.
New England	42.1	43.5	39.7	40.8
Middle Atlantic	44.3	47.4	40.2	47.4
South Atlantic	32.5	34.7	34.8	36.7
East North Central	39.9	34.7	39.7	39.6
East South Central	41.8	60.0	36.0	60.0
West North Central	40.2	36.3	38.3	41.3
West South Central	46.6	43.1	47.2	37.3
Mountain	39.8	33.5	37.5	41.4
Pacific	36.3	40.0	35.1	36.3
National	40.4	41.5	38.7	42.3

*Average days outstanding



August sales picked up steam after reaching a plateau in July . . .

SALES BY REGIONS (% change)	Aug. '81 vs. July '81 Gen.	Spec.	Both	Aug. '81 vs. Aug. '80 Gen.	Spec.	Both	8 mos. '81 vs. 8 mos. '80 Gen.	Spec.	Both
NEW ENGLAND: CT, RI, MA, NH, VT, ME	− 2	− 2	− 2	+ 3	+15	+ 7	+ 2	+13	+ 6
Connecticut	+ 5	−29	− 6	+ 2	−17	− 4	+ 1	+ 2	+ 1
Massachusetts	− 6	+ 3	− 3	+ 8	+24	+13	+ 2	+18	+ 7
MIDDLE ATLANTIC: NY, NJ, PA	− 2	− 6	− 4	+13	+14	+14	+ 5	+ 7	+ 6
New York Metropolitan Area	+ 5	−10	− 5	+17	+14	+15	+ 7	+ 2	+ 4
Upstate New York	−12	−18	−14	+13	+16	+14	+ 4	+ 7	+ 5
Pennsylvania	− 2	+ 3	+ 1	+ 7	+12	+10	+ 3	+15	+11
SOUTH ATLANTIC: DE, DC, MD, FL, GA, NC,	+ 3	+10	+ 5	+22	+23	+22	+ 4	+14	+ 7
SC, VA, WV	+ 4	+ 9	+ 5	+28	+26	+25	− 2	+17	+ 6
Georgia-Florida	+ 3	+14	+ 7	+19	+18	+19	+11	+12	+11
EAST NORTH CENTRAL: OH, IN, IL, MI, WI	− 6	− 4	− 5	+13	+24	+19	+ 4	+ 7	+ 6
Indiana	− 7	+63	+28	+22	+15	+19	+14	+15	+15
Wisconsin	−10	− 1	− 4	+ 8	+26	+20	+ 0	+ 4	+ 3
Chicago	−37	−22	−26	−13	+21	+13	−16	+ 9	+ 3
Michigan	+ 0	+ 1	+ 1	+22	+13	+18	+ 4	+14	+ 9
Ohio	− 4	− 7	− 5	+ 9	+43	+23	+ 4	+12	+ 7
EAST SOUTH CENTRAL: AL, MS, KY, TN	+10	−21	− 6	+13	+31	+22	+ 2	+20	+11
WEST NORTH CENTRAL: MN, ND, SD, IA, NE, KS, MO	− 4	+15	+ 4	+26	+11	+20	+ 5	+ 1	+ 3
WEST SOUTH CENTRAL: AK, LA, OK, TX	+ 3	+ 9	+ 5	+26	+31	+28	+21	+23	+22
Texas	+ 9	− 1	+ 4	+16	+33	+25	+27	+26	+27
MOUNTAIN: NM, AZ, CO, UT, NU, WY, MT, ID	+ 6	− 1	+ 3	+11	+40	+26	+ 1	+ 8	+ 5
PACIFIC: CA, OR, WA	+ 7	− 5	+ 2	+ 6	+13	+ 9	+ 1	+13	+ 6
LA.-San Diego	−16	−12	−15	+12	+ 7	+10	+23	+10	+19
Oregon-Washington	+ 9	− 4	+ 3	+ 5	+14	+ 9	+ 0	+14	+ 6
U.S. TOTALS	+ 0	− 2	− 1	+14	+20	+17	+ 4	+ 9	+ 6

Computer update '81... YEAR OF THE COMPUTER

With costs plummeting and the advantages of computers compounding daily, distributors face tough choices in the year ahead—selecting the proper system and add-ons among myriad options, overcoming personnel resistance, seeing through sales deceptions and facing up to the grim realities of the computer crime explosion.

As prices drop for both hardware and software, use of computers by distributors is skyrocketing. The proliferation of systems specifically designed for the industrial distributor has made the computer accessible to virtually any company, regardless of its size.

A scan of distributor computer statistics verifies the trend that computerization is no longer a rich man's game. Although use by distributors touting annual sales of $6 million and more rapidly is reaching the saturation point (87.4% for general liners and 87.9% for specialists), the market is wide-open for those at the lower end of the sales spectrum. Only 30.4% of general liners and 25.1% of specialists grossing less than $2 million annually currently use EDP equipment. From there, the totals leap dramatically to 67.7% for general liners and 68.7% for specialists in the $2.0 to $3 9-million annual sales range. *Sixty-seven percent of all distributors using computers own them.*

With the distinctions between computers, mini-computers and even micro-computers rapidly becoming blurred, the systems most smaller distributors opt for are usually aptly classified as small-business computers. Price tags here run anywhere from $3000 to $35,000, although prices in the hundreds of thousands of dollars are not unheard of.

When the distributor makes the decision to automate, there are few guidelines on price to follow. IBM suggests that a business should budget approximately 1.5% of total annual sales for data processing. However, distributors agree that this standard is too loose to follow. The costs will always be higher because of business disruption and demands on the time of top management. But with industry specialists flatly stating that 25% of the average distributor's inventory doesn't move in a year, paring down unwanted stock could tip the scales toward automation.

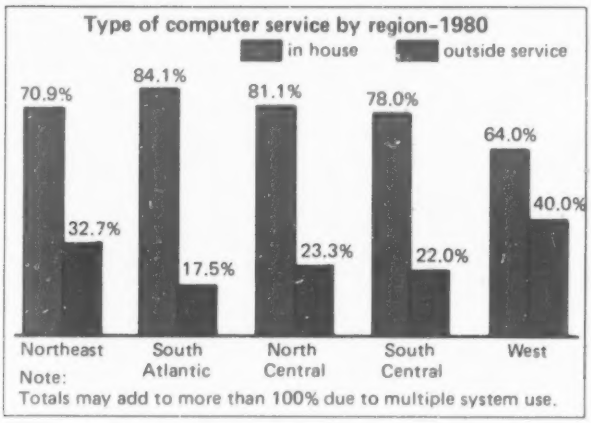
Yet, even if a distributor concedes to the financial and convenience benefits of computerization, the basis on which its cost-effectiveness is measured is unique to the individual firm. No two firms operate under precisely similar conditions. Martin Schulman, vice president of Star Hardware, Birmingham, Ala., reports that his firm has been on-line in only one of five locations and only for a few months. Reason: For the past 15 months, the company has been methodically building its customized data base. It only recently put its headquarters inventory control on-line.

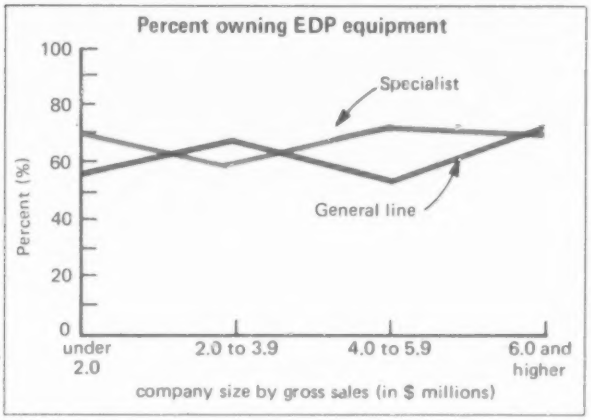
"Every distributor must make up his own mind according to his own profit performance," Schulman said. "But in my opinion there are criteria for distributors with $2 to $15 million in annual sales to follow. If stock turnover drops below 3.5 and the order fill rate is below 85%, then a distributor should really look hard at computerizing."

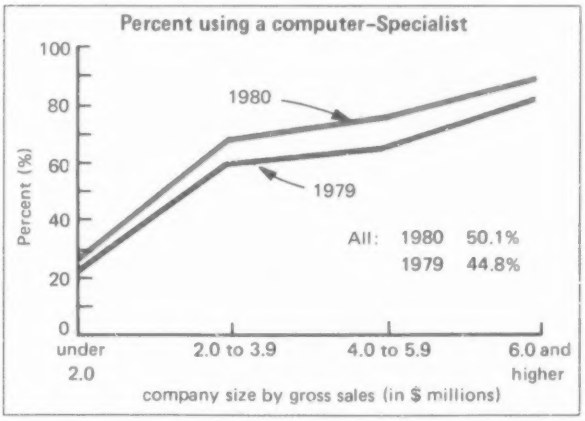
Schulman admits that these figures should serve only as tipoffs for areas that should not be handled manually. For instance, while a distributor doing less than $2 million in annual sales may be able to benefit from a computer, he doesn't necessarily need one unless his number of lines of billing is unusually low, thus generating an unmanageable number of invoices. Such a distributor could very well live with a low turnover rate and limited customer service, particularly if his business foundation rests on a few specialty lines.

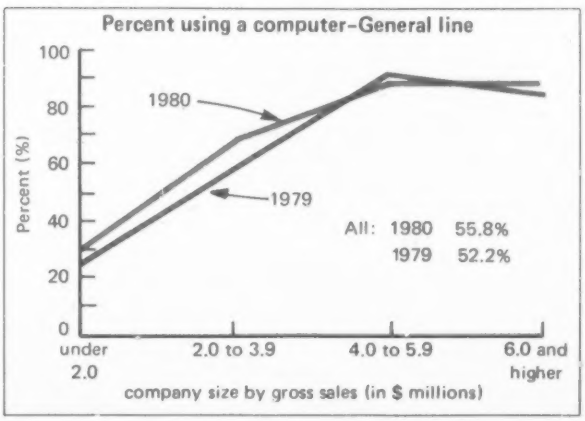
Similarly, a distributor wanting to beef up turns and cash flow through automation need not immediately consider installing a computer. "If all a company needs is a better handle on receivables and payables,

By **Peter Craddick**
Senior editor









an independent service bureau can fill the bill. Most are very, very good," Schulman said.

The software connection

Dwarfing controversy over attributes of various hardware packages are the two very different stands on software. Distributors like Schulman prefer to take the customized route rather than buying a turnkey system.

Even the most highly tailored software packages have features in common with others. So it was no inconvenience for Star Hardware to approach a local automotive wholesaler and offer to cooperate on the project. Together, they acquired a full-time staff of computer professionals. Recalls Schulman, "We got exactly what we wanted without the headaches of worrying if one of the data processing people could find time to stop by that day to solve a problem for us. That's a very important requirement."

One major problem was deciding which way to go: 100% outside service, time-sharing, installing a computer in-house or going turnkey. One temptation was to go turnkey because ostensibly it solves the problems of selection, installation and service. And even though turnkey has advanced considerably in its ability to meet distributors' unique needs, it has been rejected by many, among them Star Hardware. Says Schulman, "With a turnkey system you may not be able to decide whether to set prices at time of invoicing or time of shipment. And that," he continues, "is only one example. Turnkey systems don't always give you the latitude you need." They're often fixed to a certain set of parameters, none of which may be what you need in a system, he said. "And when something goes wrong, whom do you call, particularly when the vendor is out of state? Unless you're ready to live with extensive downtime, you have to deal with malfunctions on your own."

Not every distributor agrees. Packaged systems are the thing, says Daniel W. Judge, vice president and general manager, Ward-Beals, Inc., Lockport, N.Y. This general liner expects to install a second generation system early next year. His advice to distributors: Stick to packaged systems.

"Once you know what you want from your software, you can go out and buy a package. The market has changed so dramatically in the past few years, and there's enough available on the market, that a distributor should be able to find just about anything he wants. It has almost become a buyer's market," he said.

In fact, Judge's testimonial to the efficiency of computer packages is that the information gleaned from his own package pushed him out of a dying market. "We used to keep 20% of our inventory in plumbing and heating. After analyzing the market and our inventory levels with the aid of our system, we dumped the entire category,"

he recalls of the marketing decision.

Merely weeding out slow-moving or unprofitable inventory is only one way that computers have been altering distributors' ways of doing business. It is rapidly becoming a marketing tool of the first magnitude, and some businessmen are developing new ways of applying it to sales and inventory.

Only a sales tool

At Ward-Beals, the computer maintains perpetual inventory records. Judge declares that this is a tremendous aid in keeping turns up on special-order merchandise. "With the computer, you can keep track of the in-stock items by individual customer and you can call up the quantities on just those items. That gives you leverage over your customers." He adds, "With that kind of prodding, we find that specially stocked merchandise often turns more than our regular inventory."

Too many distributors allow the computer to dicatate what it will do, warns David Ragland, president, Stephens Industrial Supply, Oklahoma City. "A computer is only a sales tool. And that's all it is."

Ragland outlined his needs and found a turnkey system that would do his bidding the way he wanted it to. Actually, he conceded, turnkey or building-block, the system you choose "alters the way you operate." It not only needs to improve your internal productivity, he adds, it has to contribute to your growth by guaranteeing customer benefits, too. You look for a system that fulfills these needs.

Ragland feels that the system has to be "marketed" internally before it can benefit both the firm and its customers. He feels it is first necessary to drum up enthusiasm among sales staffers. If they don't regard the system with enthusiasm and become firmly convinced that it will increase their performance and earnings, it will never work.

"We gave our own salesmen the hard sell. Now, they know what it gives them, benefits like getting immediate backorder reports, making sure there are no holes in inventory, giving them a fix on special orders. This is important," concludes Ragland, "because there's a tendency among salesmen not to become familiar with their own stock. Having all this kind of information makes for a nice, neat sales presentation. With the computer, the salesman is in touch with his inventory; it's a kind of hands-on selling."

When it comes to profound benefits, the computer must be observed applying its magic to day-to-day internal operations particularly those home-base operations affecting sales. As Ragland puts it, "The system needs to work with your business hand-in-glove. Inventory is the hand, sales is the glove. They are totally dependent on one another." With the computer tied to inventory, there are no gaps in the selling or the ordering process simply because the computer forewarns of shortages, impending shortages and maybe even incoming delivery deadlines. Best of all, the information is precise and instantly accessible.

Inside salesmen are now more productive than ever, boasts Ragland. They can check the alternatives at a moment's notice via desktop terminals. While this is not new, use of terminals in distributorships is becoming a way of life from relaying visual or hard-copy management information to the top to nearly total elimination of troublesome back orders.

Ragland attributes his company's physical expansion—two more branches by the end of this year—to nothing less than his EDP. "We've looked at extending branch operations for years," says Ragland, "but we decided it couldn't be done without an on-line computer setup. Processing information between remote facilities any other way is so slow that often by the time you get inventory information, it's outdated."

Innovation

As distributors gain more experience with their systems, they derive more innovative marketing ideas than they could hope

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Let the buyer beware . . .

In the past few years, the distributor has been blessed with a fast-growing selection of reliable vendors from whom to solicit EDP systems or services. But as more and more outsiders discover this still-ripe computer market, there will be more attempts to oversell those distributors not in the know. In his book, *How to Select the Right Mini-Computer*, consultant Harry J. Nelson warns computer customers to be doubly wary of deceptive claims, for example, absence of facts, misapplication of facts, and confusing the customer. Nelson offers these guidelines:

- ***This system will handle all your requirements.*** A sweeping generality, this statement is made whether the salesman knows all, some or none of your requirements. It's sales hype. Recognize and ignore unsubstantial generalities. Analyze each system requirement separately.
- ***This is the best computer on the market.*** Usually followed by a personal statement of belief in the system or the number of satisfied users, Nelson considers this simply more sales hype. Again, ignore unsubstantial remarks and analytically evaluate needs.
- ***This disk capacity will certainly satisfy your requirements.*** The most misestimated hardware component appears to be disk space, and it's almost always pegged too low. According to the author, it's likely that a user will expand his system much faster than originally estimated; in about 20% of cases, users need two to three times more than planned. Since the situation is seldom recognized until several months later, caution is needed in this segment of system evaluation.
- ***This new whiz-bang feature will be available in two months.*** Nelson advises minicomputer customers to translate the above sentence as "We hope this feature will be available in the future, but who knows when?" He says that he's been involved in situations when salesmen have simply lied, and the product wasn't even on the drawing boards. Don't relay on promised delivery dates for new features. If it doesn't exist today, don't count on it. On the other hand, Nelson believes that delivery dates for existing equipment are fairly reliable, with a lead time generally of 90 days. For software modifications, deliveries are sometimes accurate, often late, and almost never early.
- ***That competing company is nearly bankrupt; they've had a lot of trouble with their systems lately.*** It's standard EDP sales practice to knock the competition to the point of instilling fear in the prospect. Part of a standard evaluation is to thoroughly investigate claims by checking with system users for references. Unless problems are uncovered in this way, ignore the statement.
- ***This price is only good for 30 days.*** Standard sales pressure. The author claims never to have seen a single case in which the vendor did not extend price beyond a given date, sometimes by as much as six months.
- ***We will give you a 15% discount if you become our first customer for this new software.*** Classified as the be-the-first-kid-on-the-block ploy, it's usually an honest attempt for the vendor to establish a new software product on the mini-computer itself. Often the manufacturer wants to make inroads in the customer's industry. So to the vendor, that first sale is important. A customer may even get an extra ration of attention to ensure he will be a good reference. But Nelson strongly urges customers to avoid it. It's just not worth it, because any new software system will contain errors which will have to be corrected. Being the first also makes the customer a guinea pig, subject to unknown, possibly serious, problems and delays.
- ***A customized survey of customer operations.*** The survey is presented as an alternative to consultants and personal research. The basic problem is that the computer peoples' analysts are working for their company, not for the customer. They don't have his best interests at heart. The final recommendation is almost invariably the same: The seller's computer system is perfect. It may be. But a salesman's primary concern is to make a sale, and that's where his loyalty rests.

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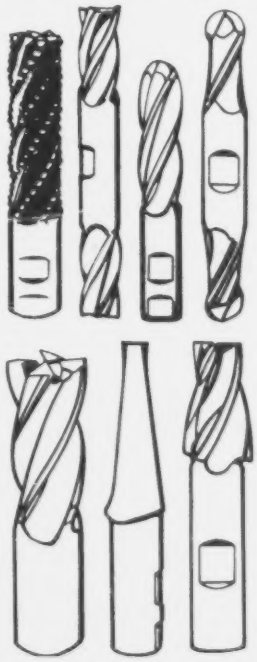

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to put into effect manually. At Allied Industrial Distributors, Los Angeles, six years of data processing experience have yielded 50% growth, mostly over the past four years, through pinpointing marketing efforts.

According to Alan Bennett, president of the three-outlet safety equipment specialty house, his salesmen use biweekly computer updates to keep accounts current.

"Our salesmen have a certain responsibility over the aging of their accounts. This helps save money in the administration of the credit department. And we've spread that money among the sales staff," Bennett said.

Even so, Bennett does not consider timely receivables as the primary advantage of his computer system. Aging accounts allows for precise marketing efforts because it eliminates time wasted on accounts with histories of late payments. Maximizing sales effectiveness is the name of the game.

Another way in which Bennett uses EDP to more fully service accounts is by supplying each, when asked for, with a complete rundown of everything it purchased during the year by item, quantity and cost.

"We provide this to aid our customers in their budgeting and in forecast preparation for the year ahead. We handle more than 4500 accounts in aerospace, shipbuilding and agriculture, all with different requirements. It would be impossible to give them sales recaps manually," he said.

Allied's two branches, located in Phoenix and Albuquerque, are linked to the Los Angeles headquarters via telephone lines. When an order comes into one and stock levels cannot meet demand, it's sent to the customer directly from another warehouse. Invoices (about 250 daily) are printed and mailed from the main office. But Bennett has set up the procedure so that while it's centralized, invoices are printed on the appropriate branch's letterhead.

"Our customers prefer to do business at a local level. So we maintain a local profile even though all our paperwork is handled centrally. We're getting the best of two worlds—local aura and image combined with central cost effectiveness," Bennett explains.

The last breakthrough . . .

. . . of any significance in computers was probably the advent of the "mini." For now, the breakthroughs for distributors to watch are not in the rapidly improving hardware but in customized software and the hundreds of innovative and highly productive ways industry peers are using EDP. Hardware, software, systems and services offering countless new benefits will continue to pour out of the industry, and distributors, among others, will find new and better ways to apply them. Meanwhile, a watchful eye on day-to-day developments and a totally realistic fix on present and estimated future needs are highly recommended. **P.C.**

'If you give the duty to more than one, you'll find that nobody is willing to take charge'—
Dave Ragland

The human factor

Distribution is rife with tales of computer woes. One east coast specialist tried three different systems before throwing up his hands in dismay and relying on an on-line service bureau. But EDP for small business is moving so rapidly, most distributors regard problems as a learning experience.

Stephens Industrial's Dave Ragland considers the most important step in getting a system operational *not* in either the hardware or software phase but in the organization of staff resources. Having recently gone through the complex computerization process, he advises:

"Your orientation period to the computer will never be elaborate enough. Since a distributor's business is selling and servicing customers, there's a tendency to think of computerizing as just one more thing to do. Time passes. Priorities seem to shift, and the system becomes operational. So we found it best to simply make one person responsible. If you give the duty to more than one, you'll find nobody is willing to take charge."

In this distributorship, an employee with experience in warehousing, purchasing and inside sales was chosen. He stresses that when the person is put in charge, he should already be on the company payroll.

"Look toward someone within the organization," Ragland advises. "Promotion from within is of the utmost importance when putting together a computer system. It means that you upgrade job status, but eliminate jealousies that result when outside experts are called in."

Taking an inside route also helps quash what consultants call "computerphobia." It's natural for employees to resent automation. They feel it will substantially impede job performance or do away with their jobs entirely.

"I can safely say that no one person has lost his job here due to our approach to automation," Ragland adds. "In the beginning you find that you have to add people, but you don't lay off others. Computerizing leads to growth, growth without having to add people to do manual tasks. We still do business as we always did it before. We just do a lot more of it." □